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Market Week: January 18, 2022



The Markets (as of market close January 14, 2022)

Equities closed generally lower last week, with only the Global Dow ending the week in the black. Inflation, or more likely the Federal Reserve's response to rising prices, may have influenced investors. Markets are still adjusting to the anticipated tighter monetary policy from the Fed, which is planning on raising interest rates several times this year. The central bank is also considering reducing the size of its balance sheet, which means less demand for bonds. Ten-year Treasury yields ended the week flat. The dollar dipped lower, while crude oil prices rose nearly 7.0%, reaching \$84.23 per barrel. Gold advanced, but remains marginally below its 2021 year-end price.

Stocks continued their slide last Monday, despite a marginal surge in tech shares. Several of the major indexes declined, with the Dow (-0.5%), the S&P 500 (-0.1%), the Russell 2000 (-0.4%), and the Global Dow (-0.2%) ending the day in the red. Only the Nasdaq was able to close ahead, but only by 0.1%. The Federal Reserve's monetary policy in response to rising inflation continued to dominate the market. Ten-year Treasury yields climbed higher as bond prices fell. Crude oil prices dropped to \$78.43 per barrel. The dollar rose against a basket of currencies. Health care, communication services, and information technology were the only market sectors to advance.

Last Tuesday saw stocks rebound after Federal Reserve Chair Jerome Powell stated that the Fed would do whatever is needed to control rising inflation. Tech stocks followed Monday's increase with another strong performance, sending the Nasdaq up 1.4% on the day. The Russell 2000 jumped 1.1%, followed by the S&P 500 and the Global Dow (0.9%), and the Dow (0.5%). The dollar and 10-year Treasury yields fell, while crude oil prices rose to \$81.42 per barrel. Energy, materials, communication services, and information technology led the market sectors.

Stocks closed last Wednesday generally higher, despite rising inflation. The benchmark indexes listed here posted gains, with the S&P 500 (0.3%) and the Nasdaq (0.2%) finishing ahead of the Dow (0.1%). Only the Russell 2000 failed to add value, closing down 0.5%. The Consumer Price Index rose 0.5% in December, ending 2021 with its largest annual increase in nearly 40 years, increasing the likelihood that the Federal Reserve will move to quell inflationary pressures. Ten-year Treasury yields dipped lower, as did the dollar. Crude oil prices rose to \$82.70 per barrel.

The Nasdaq dropped 2.5% last Thursday amid tech stock losses. With the growing likelihood that interest rates will be rising soon, investors may be moving from growth shares to value stocks. Also last Thursday, investors saw an increase in weekly unemployment claims and wholesale price inflation. The S&P 500 fell 1.4%, the Russell 2000 dipped 0.8%, and the Dow slipped 0.5%. The Global Dow inched up 0.1%. Ten-year Treasury yields, the dollar, and crude oil prices slid lower. Consumer discretionary and information technology declined more than 2.0%.

Stocks were mixed last Friday, with the Nasdaq (0.6%), the Russell 2000 (0.1%), and the S&P 500 (0.1%) ending the day higher, while the Dow (-0.6%) and the Global Dow (-0.2%) closed lower. Crude oil prices, the dollar, and 10-year Treasuries climbed higher on the day. Fourth-quarter earnings reports from a few major banks were released last week, with mixed results. A slew of banks and financial companies will be reporting their fourth-quarter earnings data this week.

Key Dates/Data Releases

1/19: Housing starts

1/20: Existing home sales

Stock Market Indexes

Market/Index	2021 Close	Prior Week	As of 1/14	Weekly Change	YTD Change
DJIA	36,338.30	36,231.66	35,911.81	-0.88%	-1.17%
Nasdaq	15,644.97	14,935.90	14,893.75	-0.28%	-4.80%
S&P 500	4,766.18	4,677.03	4,662.85	-0.30%	-2.17%
Russell 2000	2,245.31	2,179.81	2,162.46	-0.80%	-3.69%
Global Dow	4,137.63	4,232.87	4,293.85	1.44%	3.78%
Fed. Funds target rate	0.00%-0.25%	0.00%-0.25%	0.00%-0.25%	0 bps	0 bps
10-year Treasuries	1.51%	1.77%	1.77%	0 bps	26 bps
US Dollar-DXY	95.64	95.75	95.17	-0.61%	-0.49%
Crude Oil-CL=F	\$75.44	\$78.95	\$84.23	6.69%	11.65%
Gold-GC=F	\$1,830.30	\$1,795.30	\$1,816.50	1.18%	-0.75%

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Last Week's Economic News

- Inflationary pressures continued to increase in December. According to the latest data, the Consumer Price Index rose 0.5% last month after increasing 0.8% in November. The CPI advanced 7.0% in 2021, the highest annual increase since 1982. Food prices rose 0.5% in December (6.3% for the year). Energy prices dipped 0.4% last month, but increased 29.3% in 2021, led by a 49.6% rise in gasoline prices. December saw prices increase for new vehicles (1.0%) and used cars and trucks (3.5%). For 2021, automobile prices rose markedly, with new vehicle prices advancing 11.8%, while prices for used cars and trucks climbed 37.3%. A rise in prices for apparel (1.7%) and shelter (0.4%) also contributed to the increase in the December CPI.
- The Producer Price Index increased 0.2% in December after climbing 1.0% in November. The PPI moved up 9.7% in 2021, the largest calendar-year increase since data was first collected in 2010. A 0.5% increase in prices for services drove the overall December increase, as prices for goods decreased 0.4%. Over half of the December advance in prices for services is attributable to margins for final demand trade services, which moved up 0.8%. (Trade indexes measure changes in margins received by wholesalers and retailers.) Leading the December decline in goods prices was a decrease in energy prices, which fell 3.3%. Prices for foods fell 0.6% in December.
- Retail sales fell 1.9% in December after advancing 0.2% in November. Nevertheless, retail sales rose 19.3% in 2021. Weakness in sales was broad-based in December, with only a few exceptions. Last month saw clothing and clothing accessories stores sales dip 3.1%, motor vehicle and parts dealers sales fall 0.4%, and nonstore (online) sales drop 8.7%. Many factors may have contributed to the decrease in December sales, including lack of inventory and reluctance to spend on big-ticket items that were not discounted; some shoppers may have started their buying earlier than usual. While December sales may have dropped off, most businesses saw sales increase in 2021 compared to the previous year's totals. Sales for motor vehicle and parts dealers rose 23.6%, furniture and home furnishings sales increased 26.4%, electronics and appliance stores sales rose 25.2%, clothing and clothing accessories stores sales jumped 48.4%, and gasoline stations sales advanced 36.6%.
- Both import and export prices surprisingly declined in December. Import prices fell 0.2% after advancing 0.7% in November, as lower fuel prices more than offset higher nonfuel imports. Despite the December drop, import prices increased 10.4% for 2021, the largest calendar-year rise since import prices increased 10.6% in 2007. Export prices dropped 1.8% last month after increasing 1.0% in November. The December decline in export prices was the largest one-month drop since a 3.5% price decline in April 2020. Export prices rose 14.7% from December 2020 to December 2021, marking the largest calendar-year increase since data was first published in 1984.
- Industrial production declined 0.1% in December. Losses of 0.3% for manufacturing (+3.5% for 2021) and 1.5% for utilities were mostly offset by a gain of 2.0% for mining. For the fourth quarter as a whole, total industrial production rose at an annual rate of 4.0%. Total industrial production in December was 3.7% higher than it was at the end of 2020 and 0.6% above its pre-pandemic (February 2020) reading.
- The federal budget deficit was \$21.3 billion for December. Government receipts were \$486.7 billion,



while outlays totaled \$508.0 billion. The total government deficit through the first three months of fiscal year 2022 is \$377.7 billion, \$195.2 billion lower than the deficit over the same period in fiscal year 2021.

- The national average retail price for regular gasoline was \$3.295 per gallon on January 10, \$0.014 per gallon more than the prior week's price and \$0.978 higher than a year ago. Gasoline production increased during the week ended January 7, averaging 8.6 million barrels per day. U.S. crude oil refinery inputs averaged 15.6 million barrels per day during the week ended January 7 — 293,000 barrels per day less than the previous week's average. Refineries operated at 88.4% of their operable capacity.
- For the week ended January 8, there were 230,000 new claims for unemployment insurance, an increase of 23,000 from the previous week's level. According to the Department of Labor, the advance rate for insured unemployment claims for the week ended January 1 was 1.1%, a decrease of 0.2 percentage point from the previous week's rate. The advance number of those receiving unemployment insurance benefits during the week ended January 1 was 1,559,000, a decrease of 194,000 from the prior week's level, which was revised down by 1,000. This is the lowest level for insured unemployment since June 2, 1973, when it was 1,556,000. States and territories with the highest insured unemployment rates for the week ended December 25, 2021, were Alaska (3.2%), Minnesota (2.6%), California (2.5%), New Jersey (2.4%), Illinois (2.3%), New York (2.3%), Massachusetts (2.1%), Rhode Island (2.1%), Connecticut (2.0%), and Oregon (1.9%). The largest increases in initial claims for the week ended January 1 were in New York (+8,812), Pennsylvania (+6,772), Connecticut (+6,020), Washington (+4,626), and Michigan (+3,923), while the largest decreases were in Missouri (-1,086), Tennessee (-674), Puerto Rico (-329), Rhode Island (-288), and New Mexico (-101).

Eye on the Week Ahead

This week's economic news focuses on the housing sector, with the December data on housing starts and existing home sales. The number of building permits rose 3.6% in November, while housing starts jumped 11.8% — both signs that new home construction is on the upswing. Sales of existing homes have also been on the rise since September 2021. November saw existing home sales increase 1.9%, another indication that the demand for housing is solid.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.



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